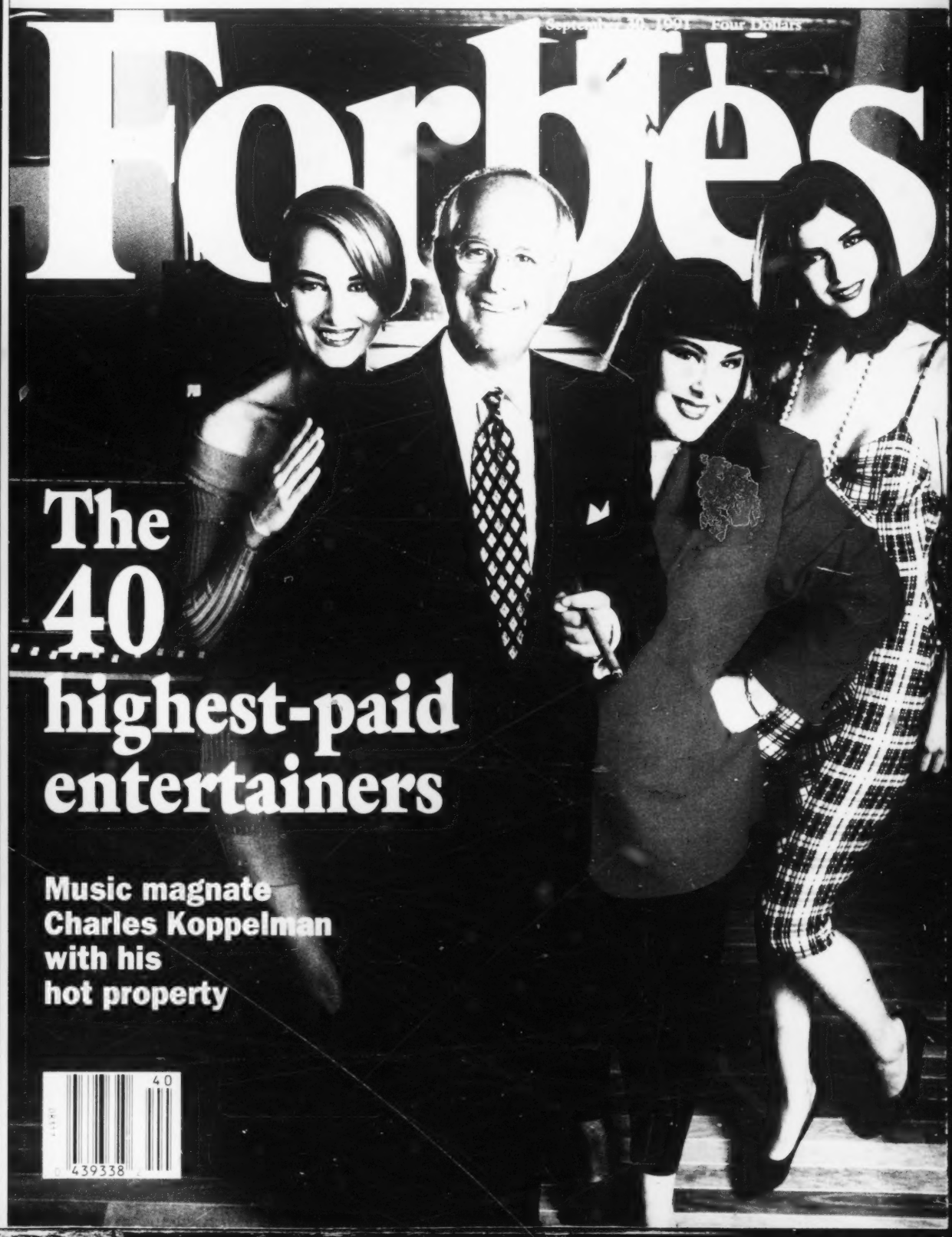
Four Dollars

Forbes



The 40 highest-paid entertainers

Music magnate Charles Koppelman with his hot property

40
439338

Forbes
SEPTEMBER 30, 1991 VOLUME 148 NUMBER 7

SBK Records' Charles Koppelman with hot act Wilson Phillips. 108

ON THE COVER

"What's Not To Love?" 108
By Peter Newcomb and Christopher Palmeri
Ever wonder why the record business makes so many people so rich?

It's Slippery At The Top 113
By Peter Newcomb
The Top 40 best-paid entertainers.

Why IBM May Be A Great Buy 195
By Charles E. Babin
Don't write the company off.

Is Everybody Listening? 172
By William G. Flanagan and David Stix
How eavesdroppers monitor cordless and cellular telephone calls.

COMPANIES / INDUSTRIES

Defense Contracting 40
By Howard Banks
The Seawolf submarine program, vital to both General Dynamics and Tenneco, is in trouble.

Alltel Corp. 42
By Gary Slutsker
Outpacing the Baby Bells.

Trade Show Exhibitions 45
By John Marcom Jr.
Big money for Reed International and Neville Buch's Blenheim Group.

Up & Comers: Healthcare Services Group 70
By Fleming Meeks
Real danger looms ahead. Also: Dressing for Hawaiian success.

International Paper 78
By Linda Killian
Why IP lets the public use its forests.

Nationwide Communications 96
By Rita Koselka
What has deep pockets, appeals to young women and is very profitable?

ICF International 97
By Janet Novack
Idyll interrupted.

First Alabama Bancshares 107
By Claire Poole
Once spurned, now not shy.

Gambling 124
By Howard Rudnitsky
Think of today's casino business as Disneyland with gambling.

Pep Boys 144
By Seth Lubove
Mitchell Leibovitz remakes the auto-supply chain.

PERSONALITIES

The Bluff City 66
By William P. Barrett
Tennessee's twice-named Memphian of the Year just invoked Chapter 11.

Arrogance Goeth Before A Fall 82
By Amy Feldman
Billionaire Klaus Jacobs' mistake in the candy business.

The Prince Of Pay 92
By Graef S. Crystal
How Steve Ross earned $280 million.

INTERNATIONAL

The Soviet Empire 50
By Peter Fuhrman
Soviet enterprises are dumping raw materials in the West.

Japan's Movie Industry 52
By Gale Eisenstodt
Two companies rig Japan's movie business.

Russia's New Businessmen 60
By Natalia Darialova and Vladimir Kvint
Gangsters and quick-buck artists as well as really smart entrepreneurs.

Inter-Continental Hotels 88
By John Marcom Jr.
The price was too high.

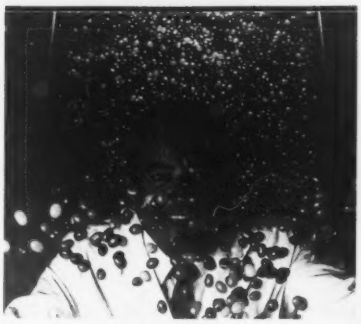
MONEY & INVESTING

Bargains 44
By Matthew Schifrin
What's the best way to play the troubled thrift industry?

Money Men: God Bites Mammon 58
By Richard Phalon
A little church gets into money management.

The Funds: Fidelity Equity-Income 188
By Suzanne L. Oliver
Beth Terrana's search for upside potential and downside protection.

How Alltel Corp.'s Joe Ford is upstaging the big Bell operating companies.
42



"In 12 years I had 18 titles, and basically what I did was fix broken businesses."
82

Who else is listening in on your wireless phone calls?
172

The Forbes Index 38
The Forbes/Barra Wall Street Review 185
Industry Review 186

Streetwalker 198
A technician worries; Martin Marietta; Airborne Freight; TRW Inc.

LAW AND ISSUES

Taxing Matters 142
By Laura Saunders
Dan Rostenkowski's bad news for software and cable companies and good news for advertisers.

On The Docket 150
By James Lyons
Are bankruptcy rules too lenient for real estate debtors?

MARKETING

Choosing An Agency 152
By Joshua Levine
"You've got to be perfect, but not plastic perfect."

COMPUTERS/COMMUNICATIONS

Color Is Coming 156
By Kathleen K. Wiegner
To office computing.

Mentor Graphics 160
By Kathleen K. Wiegner
When the computer business changed, Mentor Graphics was slow to adapt. Also: Commentary by Richard A. Shaffer.

SCIENCE & TECHNOLOGY

High Anxiety 166
By Toddi Gutner
Is stage fright treatable? Also: Commentary by Peter Huber.

PERSONAL AFFAIRS

Collectors:
Aviation Memorabilia 174
By Christie Brown
Posters, old planes, and more.

Careers:
Letting Both Sides Win 178
By Mary Beth Grover
Never tell a good customer to shove it.

FACES BEHIND THE FIGURES

John Herrington 180
Harcourt Brace Jovanovich
Jerry Geist 180
Former utility chairman
Michael Losh 182
Oldsmobile
Frederick Gale Ruffner Jr. 182
Gale Research

COLUMNISTS

Observations 56
Thomas Sowell
The Larger Context 148
Michael Novak
Capital Markets 191
Ben Weberman
Portfolio Strategy 192
Kenneth L. Fisher
Wall Street Irregular 193
Mark Hulbert
Market Trends 194
Frederick E. Rowe Jr.
Property Strategy 195
Charles E. Babin

DEPARTMENTS

Side Lines 10
Follow-Through 12
The Informer 18
Readers Say 22
Fact and Comment 25
Other Comments 30
Commentary 35
What's Ahead For Business 37
Flashbacks 201
Thoughts 202

Editorial index is on page 8
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COMPANIES IN THIS ISSUE

Forbes

EACH REFERENCE IS TO THE FIRST PAGE OF THE STORY IN WHICH THE COMPANY NAME APPEARS.

A

A&M Records, 108
Abacus Capital, 22
Absolut, 152
Adams Cohen, 44
Advanced Telecommunications, 42
Air France, 152
Airborne Freight, 198
Albany Savings, 44
Alcoa, 188
Alltel, 42
Aloha Airlines, 72
American Brands, 198
American Business Products, 16
American Home Products, 82
Ameritech, 42, 172, 192
Ammirati & Puris, 152
AMR, 198
AmSouth Bancorp, 107
Anchor Savings, 44
AOR, 172
Appel Inter, 19
AT&T, 19, 37, 42, 188
Atari, 92
Aztar, 124

B

Bache, 70
Baker Hughes, 58
Bally Manufacturing, 124
Bank of Boston, 188
Bank of New England, 188
BankAmerica, 188
Bankers Trust, 188
BankWatch, 107
Bantam Books (Bertelsmann), 178
Banxquote, 38
BayBanks, 58
Bell Atlantic, 42, 172, 192
Bell Canada, 19
Bell Federal, 44
BellSouth, 42, 172
Bertelsmann Music Group, 108
Birmingham Turf Club, 107
D.H. Blair, 70
Blenheim Group, 45
Bobbin, 45
Boeing, 50, 174
E.J. Brach, 82
Bristol-Myers Squibb, 58
Browning-Ferris Industries, 198

C

Cadence Design Systems, 160
Caesars World, 124
California Federal Savings & Loan, 42
Callan Associates, 58
Calumet Federal, 44
Campbell Soup, 198
Canadian Imperial, 18
Canon, 156
CBS, 108
Century Federal, 44
Champion International, 78, 198
Chase Manhattan, 188
Chiat/Day/Mojo, 152
Chiquita Brands, 16
Circus Circus, 124
City Federal Savings & Loan, 107
Club Med, 152
Comdial, 42
Comdisco, 198
Communispond, 178
Compagnie Générale des Eaux, 45
Conrail, 188
Continental Airlines Holdings, 174
Control Data, 198
Al Copeland Enterprises, 18
Cragin Financial, 44
Cummins Engine, 12
Curtiss Candy, 82

D

Dain Bosworth, 186
Delphis Hanover, 191
Delta Air Lines, 198
Denver Nuggets, 66
Digital Equipment, 164, 198
Walt Disney, 156
Donaldson Lufkin & Jenrette (Equitable Life Assurance), 42, 199
Dow Chemical, 142
Dreyfus funds, 191
Du Pont, 156

E

E-Systems, 198
Eastman Kodak, 156
Eaton & Vance, 58
Electric Boat (General Dynamics), 40
Elf Aquitaine, 188
Emmis Broadcasting, 18, 96
Empire of America, 44
Entergy, 188
Erie Pennsylvania Lease Revenue Bond, 191
Ernst & Young, 60

F

Farley Candy, 82
Federal Express, 198
FedFirst Bancshares, 44
Fiat, 201
Fidelity Investments (FMR), 188
Fidelity Monitor, 193
Fifth Third, 107
First Alabama Bancshares, 107
First Fidelity, 188
First FSB, 44
Floating Point Systems, 160
Ford Motor, 12
Four Queens, 124
Freedom House, 148
Fund Exchange, 193

G

Gale Research, 182
Gaming & Wagering Business Magazine, 124
Gannett, 142
GE, 40, 50, 195
General Cinema, 180
General Dynamics, 40
General Motors, 42, 182, 195
Georgia-Pacific, 198
Gitano, 192
Gold Coast, 124
Goldriver Finance, 124
Gordon Capital, 198
W.R. Grace, 188
Grand Metropolitan, 88
Granville Market Letter, 193
GTE, 172
Gucci, 124

H

Harcourt Brace Jovanovich, 180
Healthcare Services Group, 70
Hewlett-Packard, 156, 160
Hilton Hotels, 124
Hogan Systems, 42
Home Depot, 144, 188
Honda Motor, 182
Honeywell, 198
Horseshoe, 124
Household International, 188
Hulbert Financial Digest, 193
Humana, 198
Hunt International Oil, 18

I

IBM, 42, 164, 188, 195, 198
ICF International, 97
Imperial Palace, 124
Intel, 164
Inter-Continental Hotels, 88
Interface Group, 45
Intergraph, 160
Intermountain Power Authority Bond, 191
International Game Technologies, 124
International Paper, 78
Interstates/Johnson Lane, 186
Investment Counselors of Maryland, 198
Investors Intelligence, 193
IP Timberlands, 78

J

Jacobs Suchard (Philip Morris), 82
Jamaica Savings Bank, 44
Jefferson Louisiana Sales Tax Revenue Bond, 191
Johnson & Johnson, 198
Justice Records, 108

K

Keefe, Bruyette & Woods, 107
Kidder, Peabody (GE), 195
Kimberly-Clark, 16
Kmart, 188, 198
Kubota, 12

L

Lady Luck, 124
Largo Entertainment, 52
C.J. Lawrence, 40
Liberty Federal, 44
Limited, 198
Lindner Dividend Fund, 185
Litton Industries, 16
Llamadas Rapidas, 19
Lockheed, 198

London Records, 108
Loral, 198
Los Angeles Department of Water & Power Bond, 191

M

Magna Bancorp, 44
Manufacturers Hanover, 42
Margo's Market Monitor, 193
Martin Marietta, 198
McCaw Cellular Communications (Affiliated Publications), 172
McDonald's, 198
McKinsey, 88
Media General, 186
Melville, 198
Memphis, 66
Mentor Graphics, 142, 160
Meritor Financial, 44
Merrill Lynch, 18
Messner, Vetere, Berger, Carey & Schmetterer, 152
MGM-Pathe Communications, 52, 124
Microsoft, 164
Midland Walwyn, 12
Mirage Resorts, 124
Miscellaneous Man, 174
Mitsubishi Trust & Banking, 18
Mitsubishi, 156
Moneyletter, 193
Monitoring Times, 172
Moody's Investors Service, 37
Morgan Guaranty, 188
Morgan Stanley, 18, 70
J.P. Morgan, 107
Motorola, 164, 172
Motown Record (Matsushita), 10
Mutual Fund Investing, 193
Mutual Fund Strategist, 193

N

N.S. Bancorp, 44
National Heritage Management, 70
National Medical Enterprises, 198
Nationwide Mutual Insurance, 96
NCNB, 107, 188
NEC, 156
New Jersey Health Care Authority Bond, 191
New York Times, 201
Nichii, 52
Nike, 160
Nikon, 156
Nynex, 42, 188

O

Océ Graphics, 156
Ogilvy & Mather, 152
Omnigraphics, 182
Oppenheimer, 124

P

Pacific Telesis, 42
PaineWebber, 12
Pan Am, 88
Paramount Communications, 52, 92
J.C. Penney, 198
Pennzoil, 108
Pep Boys, 144
PepsiCo, 58, 198
Personal Technology Research, 172
Pertamina, 18
Peter Dag Investment Letter, 193
Pfizer, 58
Phelps Dodge, 188
Philip Morris, 58, 188
Piggly Wiggly (Fleming), 201
Pitney Bowes, 198
PolyGram, 108
Popular Communications, 172
Port Authority of New York & New Jersey Bond, 191
J.D. Power, 182
Procter & Gamble, 198
Professional Tape Reader, 193
Professional Timing Service, 193
Promus, 124
Public Service Co of New Mexico, 180
Putnam, 188
Pyramid, 66

Q

QMS, 156

R

Radio Shack (Tandy), 172
Ralston Purina, 16
Raytheon, 198
Reed International, 45
Republic National Bank, 42
Resorts International, 124
Reyn Spooner, 72
Reynolds Metals, 188
Riviera, 124
RJR Nabisco, 82
Robinson-Humphrey, 198
Rolls-Royce, 50
Royal Dutch Petroleum, 188
Royal Palm Savings, 44

S

Saatchi & Saatchi, 45, 152
Saison Group, 88
Salomon, 26, 30
Sands, 124
SBK Records, 108
Scandinavian Airlines System, 88
Schlumberger, 58
Scientific-Atlanta, 198
Sea Containers, 185
Seattle Mariners, 18
Seattle Washington Metropolitan Sewer Revenue Bond, 191
Security Federal, 44
Security Pacific, 18, 188
Seiko, 156
Sequent Computer, 160
Sharp, 156
Shawmut National, 188
Shearson Lehman, 142
Shochiku, 52
Smith Barney (Primerica), 70, 191
SNL Securities, 44
Sony, 52, 108
Sotheby's Holdings, 174
Southdown, 192
Southmark, 70
Southwestern Bell, 42
Standard Asset Group, 58
Stardust, 124
Stephens, 42
Stockmarket Cycles, 193
Strauss Auto Stores, 144
Sun Microsystems, 160, 164
Sun Trust, 107
Systematics (Alltel), 42

T

Tandem Computers, 198
TAP Publishing, 174
TBWA, 152
Tektronix, 156, 160
Tenneco, 12, 40
Texaco, 108
J. Walter Thompson (WPP Group), 178
Thomson, 12
Thorn EMI, 108
Time Warner, 10, 52, 92, 108
Toei, 52
Toho, 52
Tosco, 185
Toyota Motor, 182
Toys "R" Us, 144
Transamerica Occidental Life Insurance, 22
Trident Financial, 44
Trump Group, 124
TRW, 199
Twentieth Century Fox (News Corp), 52
Tyson Foods, 42

U

U.S. Surgical, 198
U.S. West, 42
UAL, 198
Uniden America, 172
Union Carbide, 188
United International Pictures, 52
United Missouri, 107
United Parcel Service, 198
Universal Building Services, 70
Universal/MCA (Matsushita), 52
Upjohn, 198

V

Valid Logic Systems, 160
Van Kampen Merritt, 191
Vertex, 37
Virgin Group, 108
Volvo, 152
Louis Vuitton (LVMH), 124

W

Wachovia, 107
Wal-Mart Stores, 42, 188
Wall Street Journal, 35
Wallace, 18
Weiner Associates, 60
Wells Fargo, 198
Western Publishing, 192
Westinghouse, 198
Westvaco, 78
Weyerhaeuser, 78
WKZL, 96
WWHT, 96
Wyeth-Ayerst Laboratories, 166

X, Y, Z

Xerox, 156
Your Window into the Future, 193
Zweig Forecast, 193

Sometimes faith alone won't cut it

HOW MUCH FURTHER is this year's steady decline in interest rates likely to go? Political pressure will increase on the Federal Reserve to keep easing, as the 1992 election date gets nearer, to add life to the economy's lethargic recovery. But that pressure and the short-term rate cuts that will probably follow may increase the market's jitters about the long-term course for inflation.

Right now the inflation front looks bright. Most economists now expect the underlying rate of consumer price inflation, excluding food and energy, to be around 3.5% in 1992. This so-called core rate has in the last six months been running barely above this pace. And the prices of producer goods, which eventually feed into consumer prices, have been declining.

Oil prices, too, seem headed down. Iraq is now expected (finally) to be allowed to export some crude, and Saudi Arabia has built up stocks of 60 million barrels, with the deliberate idea that this will help push crude prices down to around $18.70 a barrel, down from a recent $21.30, and so encourage extra demand.

But the yield curve—the relationship among interest rates on Treasury debt securities of various maturities—is saying clearly that the credit markets do not believe we have yet whipped inflation. The curve has been flattening, but with the 30-year long bond still yielding 8%, the difference between very short and very long rates remains well over 250 basis points, much higher than the 160 basis point average since 1986.

"That shows that inflation fears still persist and that investors are not convinced that they can let down their guard," says John Lonski, senior economist with Moody's Investors Service.

There is also concern that the recession did not bring inflation down further, and that companies—notably automakers, despite their business' still being in a slump—are willing to push for 9%-to-11% price increases. Labor costs (mainly health benefits, but to an extent hourly wage rates too) are also ticking up.

The markets are wary that what happened in 1986 and 1987 might be repeated, says Lonski. Back then, oil prices went through the floor, consumer inflation fell to around 1% or so, and long bond rates fell to 7.25%, down from 9.5% in early 1986. But by the middle of 1987, after cheap oil encouraged faster economic growth, long rates moved up sharply, to around 10%, Lonski says.

The implication is that lenders will not be content with a 3% premium to protect their capital against inflation, a spread that would give 6.5% long bonds in 1992. Instead, most traders seem to think the market will demand something close to today's 4% spread, giving a floor for long Treasury rates of around 7.5%.

Sales tax nightmare on Main Street

BROKE STATE AND LOCAL governments are auditing more and more businesses—not just retailers—to find unpaid sales and use taxes. And they are levying sales taxes on more and more items, sometimes confusingly so. In some places sales taxes at varying rates have been added to such items as long-distance telephone calls, automobile leases and previously exempt business-to-business services. Pennsylvania, for example, is to tax computer services from Oct. 1.

Perhaps the most ridiculous extension is California's new snack tax. Under it Ritz crackers are deemed taxable, but saltine crackers are not.

"Compliance is becoming much more complex as the states expand their sales taxes," says AT&T tax attorney James Kratochvill. And more costly. AT&T employs 76 people to file 9,000 sales and use tax returns each year. They also handle the 200 sales tax audits it is presently undergoing, up by about 30% from the mid-1980s.

There are now over 9,000 state and local sales taxes, up by more than 1,500 since 1986, according to Vertex Inc., a Berwyn, Pa. company that sells a software package to cope with this proliferation. Generally, a business must collect sales taxes on goods sold in another state if it has a presence—say a salesman—there. But some states are trying to collect even from companies that sell from catalogs into their states. This contradicts Supreme Court precedent and the High Court is likely to take another look at the issue this year. A national survey of 444 companies conducted for Vertex found that on average these companies had undergone sales tax audits by three different states in the previous 12 months. In 84% of the audits, the states demanded more money. By a wide margin, California is reported to be the most aggressive.

Typically, it costs these businesses 2.1 cents to collect each sales tax dollar. But audits and audit assessments raise that cost to 16 cents of each dollar of sales tax, and more, for smaller companies. "Sales tax compliance," observes Jon Riewe, Vertex vice president for research, "is not something they teach in M.B.A. courses." They don't, but they should. –JANET NOVACK

Want to make the Forbes Top 40? Beware. Success is brief and fortune's fleeting.

It's slippery at the top

RAP MUSIC proved the road to riches for entertainers this year, placing two new names on the Forbes Top 40. One of them is M.C. Hammer, né Kirk Burrell. Hammer's high-energy dance steps and bouncy secondhand grooves helped move more than 15 million copies of his debut album, *Please Hammer Don't Hurt 'Em.* White rapper Robert Van Winkle, a.k.a. Vanilla Ice, cracks the list in the 40th spot. His album *To the Extreme* sold over 12 million copies.

Also new to the list: Xuxa, Brazil's answer to Madonna. Her empire includes film production, an array of merchandise, a travel agency and comic books. But most of her money comes from record sales and her daily TV show. Roll over, Xavier Cugat.

Hollywood dreamboat Kevin Costner jumped aboard with panache. He directed and starred in the Western epic *Dances With Wolves,* which swept the Oscars and grossed over $400 million. Costner's share of the take is some $40 million, but *Dances* was distributed by the nearly bankrupt Orion Pictures. Costner makes our list because he earned the money; getting paid is his problem.

Teen-angst auteur John Hughes *(The Breakfast Club)* wrote and produced *Home Alone,* which grossed $500 million. Welcome also military-techno-thriller writer Tom Clancy and cartoonist Matt Groening, creator of *The Simpsons.*

Atop the list, knocking off perennial leaders Bill Cosby and Michael Jackson, are teenybop heartthrobs New Kids on the Block. In 1990 they sold nearly $75 million in concert tickets and over $1 billion in merchandise. Two-year take: $115 million.

This year the Top 40 bids farewell to Garfield creator Jim Davis and warhorse rock acts Pink Floyd, U2 and the Who. And pop star George Michael, who complained about the rigors of stardom, found his public responding in kind: His new album didn't sell enough to keep Michael on the chart. He'll find it's lonely at the bottom, too. –P.N. ■

New Kids On The Block
pop music group
1991 $ 54,000,000
1990 $ 61,000,000
Total $115,000,000

William H. Cosby Jr.
actor, comedian, author
1991 $ 58,000,000
1990 $ 55,000,000
Total $113,000,000

Oprah Winfrey
TV host, producer
1991 $ 42,000,000
1990 $ 38,000,000
Total $ 80,000,000

Sources: The Licensing Letter; Video Marketing News; Pollstar; Amusement Business; entertainment executives, lawyers, agents and managers.

Madonna
pop singer, actress
1991 $ 24,000,000
1990 $ 39,000,000
Total $ 63,000,000

Michael Jackson
pop singer
1991 $ 25,000,000
1990 $ 35,000,000
Total $ 60,000,000

Kevin Costner
movie actor, director
1991 $ 50,000,000
1990 $ 9,000,000
Total $ 59,000,000

Johnny Carson
TV host, producer
1991 $ 30,000,000
1990 $ 25,000,000
Total $ 55,000,000

The Rolling Stones
rock group
1991 $ 11,000,000
1990 $ 44,000,000
Total $ 55,000,000

Charles M. Schulz
cartoonist
1991 $ 25,000,000
1990 $ 26,000,000
Total $ 51,000,000

Steven Spielberg
movie director, producer
1991 $ 27,000,000
1990 $ 23,000,000
Total $ 50,000,000

Paul McCartney
pop singer, composer
1991 $ 15,000,000
1990 $ 34,000,000
Total $ 49,000,000

Julio Iglesias
pop singer
1991 $ 23,000,000
1990 $ 22,000,000
Total $ 45,000,000

Janet Jackson
pop singer
1991 $ 18,000,000
1990 $ 25,000,000
Total $ 43,000,000

Bruce Willis
movie actor
1991 $ 15,000,000
1990 $ 28,000,000
Total $ 43,000,000

Eddie Murphy
movie actor, comedian
1991 $ 16,000,000
1990 $ 26,000,000
Total $ 42,000,000

Tom Cruise
movie actor
1991 $ 17,000,000
1990 $ 19,000,000
Total $ 36,000,000

Arnold Schwarzenegger
movie actor
1991 $ 15,000,000
1990 $ 20,000,000
Total $ 35,000,000

Aerosmith
rock group
1991 $ 12,000,000
1990 $ 22,000,000
Total $ 34,000,000

M. C. Hammer
rap singer
1991 $ 22,000,000
1990 $ 11,000,000
Total $ 33,000,000

The Grateful Dead
rock group
1991 $ 16,000,000
1990 $ 17,000,000
Total $ 33,000,000

Sean Connery
movie actor
1991 $ 5,000,000
1990 $ 27,000,000
Total $ 32,000,000

Billy Joel
pop singer
1991 $ 5,000,000
1990 $ 26,000,000
Total $ 31,000,000

Jack Nicholson
movie actor
1991 $ 14,000,000
1990 $ 16,000,000
Total $ 30,000,000

John Hughes
movie producer, director
1991 $ 20,000,000
1990 $ 8,000,000
Total $ 28,000,000

Frank Sinatra
singer
1991 $ 14,000,000
1990 $ 13,000,000
Total $ 27,000,000

Michael Douglas
movie actor, producer
1991 $ 12,000,000
1990 $ 15,000,000
Total $ 27,000,000

Guns N' Roses
rock group
1991 $ 21,000,000
1990 $ 4,000,000
Total $ 25,000,000

Michael J. Fox
movie actor
1991 $ 3,000,000
1990 $ 23,000,000
Total $ 26,000,000

Stephen King
novelist, screenwriter
1991 $ 13,000,000
1990 $ 12,000,000
Total $ 25,000,000

Siegfried & Roy
illusionists
1991 $ 15,000,000
1990 $ 10,000,000
Total $ 25,000,000

Prince
pop singer
1991 $ 10,000,000
1990 $ 15,000,000
Total $ 25,000,000

Andrew Lloyd Webber
composer, producer
1991 $ 12,000,000
1990 $ 12,000,000
Total $ 24,000,000

Paula Abdul
pop singer, dancer
1991 $ 10,000,000
1990 $ 14,000,000
Total $ 24,000,000

Sylvester Stallone
movie actor
1991 $ 10,000,000
1990 $ 13,000,000
Total $ 23,000,000

Arsenio Hall
TV host, comedian
1991 $ 12,000,000
1990 $ 11,000,000
Total $ 23,000,000

Tom Clancy
novelist
1991 $ 15,000,000
1990 $ 5,000,000
Total $ 20,000,000

Xuxa
pop singer, TV host
1991 $ 10,000,000
1990 $ 9,000,000
Total $ 19,000,000

Mel Gibson
movie actor
1991 $ 10,000,000
1990 $ 9,000,000
Total $ 19,000,000

Matt Groening
cartoonist
1991 $ 8,000,000
1990 $ 10,000,000
Total $ 18,000,000

Vanilla Ice
rap singer
1991 $ 13,000,000
1990 $ 5,000,000
Total $ 18,000,000

THE FORBES/BARRA WALL STREET REVIEW

BY ERIC S. HARDY

Will the market plunge again this fall as it did in October 1987 and October 1989? Probably not. But nervous investors might want to increase their holdings of quality issues that have high dividend yields. With money market funds paying around 5%, such stocks at least offer some downside protection. (For more on this approach, see p. 188.)

Another way to use yield for protection is with convertible instruments. Eric Ryback, manager of the Lindner Dividend Fund, owns several convertibles. Two of Ryback's favorite convertible preferreds are the Sea Containers $4 (recent price, $50) and the Tosco $4.37 (recently $57.50). Healthy yields help convertibles hold up better in bear markets, and their conversion feature helps them participate in bull markets. But remember: Convertibles' conversion prices are often much higher than the current price of the underlying common.

Special focus

Which are better fundamental plays for investors: stocks selling at low price-to-book values? Or stocks priced inexpensively, relative to earnings? According to Barra, Inc., during the 1970s stocks selling significantly below their book values subsequently performed twice as well as stocks with low price/earnings ratios. But this relationship was reversed during the 1980s, when low-P/E stocks were the place to be. One plausible explanation: In the 1970s high levels of inflation made actual earnings less important than the rising value of underlying assets.

Factor returns

The overall market

Closeup on the market

Index or investment	2-week change	% change from 1 year	% change from 5-year high
Barra All-US index	-2.1%	20.0%	-3.3%
Sharpe/Barra Growth index[1]	-0.4	29.2	-1.9
Sharpe/Barra Value index[2]	-0.1	9.2	-1.4
Dow Jones industrials	0.0	16.9	-1.5
S&P 500	-0.6	21.4	-1.9
NYSE	-0.4	21.2	-1.7
Nasdaq	-0.3	36.5	-1.8
Amex	0.3	13.8	-7.0
EAFE[3]	0.9	2.0	-22.0
CRB index[4,5]	1.5	-10.9	-21.8
Gold[5]	-2.1	-11.1	-30.9
Yen[5]	-0.6	-3.6	-17.2
Oil[5]	-1.0	-31.0	-47.3

The best and worst performing stocks[6]

Best	Price	2-week change	1991 EPS[7]	Worst	Price	2-week change	1991 EPS[7]
Pansophic Systems	15 3/8	45%	$ 0.97	Dean Foods	32 3/8	-34%	$3.02
Harken Energy	7 1/4	35	NA	Deprenyl Research	13	-32	NA
Hondo Oil & Gas	14 7/8	34	NA	Bergen Brunswig	21 3/4	-23	NA
Medimmune	27 1/4	33	0.08	Oregon Steel Mills	27 3/4	-22	2.60
Immune Response	22 1/2	32	-0.32	Continental Bank	12	-22	1.55

The best and worst performing industry factors[5,8]

Best	2-week change	Since 12/31/90	Worst	2-week change	Since 12/31/90
Gas utilities	2.4%	5.6%	Thrifts	-6.2%	15.8%
Paper	2.0	15.0	Pollution control	-5.2	-2.8
Railroads, transit	1.9	37.2	Real estate	-4.2	18.7
International oil	1.9	21.3	Retail food	-4.2	9.8
Telephone, telegraph	1.3	9.7	Precious metals	-4.0	-22.7

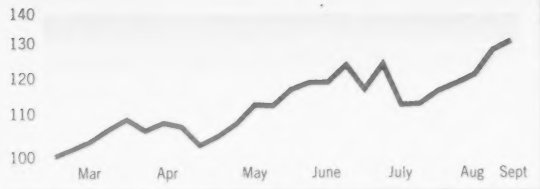
Note: Data for period ending 9/5/91. The Barra All-US index consists of all publicly traded common stocks for which price quotations are available and ordinary shares of foreign stocks trading on U.S. markets. ADRs, REITs and closed-end funds are excluded. [1] Total return of a portfolio of more than 150 large-capitalization stocks that has high historical earnings growth and has predicted above average earnings growth. [2] Total return of a portfolio of more than 300 large-capitalization stocks characterized by low price-to-book ratios, high yields and low price-to-earnings ratios. [3] A dollar-denominated capitalization-weighted index of more than 1,000 stocks from Europe, Australia, New Zealand and the Far East. Source: Morgan Stanley Capital International Perspective. [4] Index of 21 commodity futures. [5] Knight-Ridder Financial Information. [6] During the last two weeks. [7] Estimate. Source: Institutional Brokers Estimate System, from Lynch, Jones & Ryan. [8] Shows return to the industry factor after controlling for other influences including company size, value and growth characteristics. Multi-industry firms have proportional contributions in two or more groups. NA: Not available. Principal source: Barra, Inc., Berkeley, Calif.

INDUSTRY REVIEW

BY GILBERT STEEDLEY

Best industry over the last 6 months

Textiles



Worst industry over the last 6 months

Offshore drilling

The market loves a turnaround story—or so it seems from a look at Wall Street's favorites. Textile manufacturers, electronics stores and banks show up on Media General's database as the best-performing industries since March. "Investors are anticipating improved business conditions for textiles," says Kay C. Norwood, a Senior Vice President at Charlotte-based Interstates/Johnson Lane.

The recession and a lack of exciting new products drove some consumer electronics retailers into bankruptcy. Nevertheless, stocks in this group have climbed 39% on average since early March.

Unlike their beleaguered counterparts, Mountain states' banks were quietly posting a 38% price gain over the last half-year. "These banks are on an upward side of the recovery and are already seeing better times," says Jay Tejera, a bank stock analyst at Dain Bosworth in Seattle.

Leading industries

Textiles

Company	Recent price	6-month price change	Latest 12-months EPS	P/E
Aileen	11 5/8	232%	$0.74	16
Delta Woodside Inds	19	114	0.94	20
Unifi	40 3/4	55	2.02	20
Russell	29 1/8	9	1.22	24
Guilford Mills	23 7/8	9	1.58	15

Electronics, retailers and distributors

Company	Recent price	6-month price change	Latest 12-months EPS	P/E
Best Buy	23 3/8	183%	$0.75	31
Arrow Electronics	12 1/8	106	0.50	24
Good Guys	27 1/2	76	0.90	31
Fretter	6 3/4	38	0.07	NM
Circuit City Stores	22 5/8	19	1.16	19

Mountian state banks

Company	Recent price	6-month price change	Latest 12-months EPS	P/E
Valley Capital	34 3/4	88%	$3.16	11
Affiliated Bankshares Col	22	50	1.07	19
Valley National	28	43	1.33	21
Colorado Natl Bankshares	20 1/2	41	0.47	44
Zions Bancorp	48 1/2	34	4.75	10

Lagging industries

Offshore Drilling

Company	Recent price	6-month price change	Latest 12-months EPS	P/E
Noble Drilling	5 5/8	-24%	$-0.23	NM
Zapata	7/8	-22	-2.62	NM
Energy Service	2 1/2	-13	-0.12	NM
Global Marine	4	-11	-0.14	NM
Diamond Shamrock Offshore	4	3	0.38	11

Airlines

Company	Recent price	6-month price change	Latest 12-months EPS	P/E
Continental Airlines Hldg	2 3/8	-49%	$-60.30	NM
USAir	12 1/8	-47	-13.32	NM
Delta Air Lines	65 1/4	-16	-7.73	NM
UAL	132 1/2	-11	-5.38	NM
AMR	57 1/8	-6	-3.29	NM

Contracting

Company	Recent price	6-month price change	Latest 12-months EPS	P/E
Dravo	9	-32%	$-1.30	NM
McDermott Intl	19 7/8	-28	-1.58	NM
Dycom	10 7/8	-25	0.35	31
Kasler	10 5/8	-13	0.50	21
Brand Cos	19 1/4	6	0.66	29

Industry performance is based on 6-month price change. Industries listed above have a market capitalization of $100 million or more and at least 5 companies. NA: Not available. NM: Not meaningful. All data ending 9/5/91. Source: Media General, via Lotus One Source.